

**FINANCIAL MANAGEMENT IN
HUNGARIAN CITIES:**

THE CASE OF NAGYKANIZSA

Prepared for



East European Regional Housing Sector Assistance Project
Project 180-0034
U.S. Agency for International Development, ENI/DG/LGUD
Contract No. EPE-C-00-95-001100-00, RFS No. 536

Prepared by

Regina Mészáros

Zsolt Pataki
MRI



THE URBAN INSTITUTE
2100 M Street, NW
Washington, DC 20037
(202) 833-7200
www.urban.org

January 1999
UI Project 06610-536

TABLE OF CONTENTS

| | |
|--|----|
| INTRODUCTION | 1 |
| NAGYKANIZSA AFTER THE POLITICAL CHANGES AND ITS LONG-TERM STRATEGIC CONCEPT | 2 |
| TASKS | 5 |
| SECONDARY EDUCATION | 6 |
| Financing | 7 |
| Planning the budgets | 7 |
| Planning expenditures for 1998 | 8 |
| Planning revenues for 1998 | 8 |
| Performance Measurement | 10 |
| TYPICAL ORGANIZATIONAL FORMS OF MUNICIPALLY SUPPLIED SERVICES | 11 |
| The House of Culture | 11 |
| Financing | 12 |
| Performance measurement | 13 |
| Road and bridge maintenance | 13 |
| Financing | 14 |
| Performance measurement | 15 |
| Garbage collection | 16 |
| Performance Measurement | 17 |
| Garbage deposit | 17 |
| Performance Measurement | 18 |
| INVESTMENTS AND PROPERTY MANAGEMENT | 18 |
| The case of the Vásárcsarnok (Market Hall) | 20 |
| Property management | 21 |
| SUMMARY | 21 |
| Management of arrears | 44 |
| APPENDICIES (1-9) | |
| ATTACHMENT | |

FINANCIAL MANAGEMENT IN HUNGARIAN CITIES:

THE CASE OF NAGYKANIZSA

INTRODUCTION

Nagykanizsa lies at the south-western border of the country at the junction of five roads. The name “Kanizsa” is of Slavic origin, meaning “that of the ruler, of the prince”. The territory of the town was inhabited already in prehistoric times, which is probably due to the exceptionally favorable geographic location. The town has filled a cultural and commercial intermediary role between Croatia, Italy, Slovenia, Hungary and Austria for centuries.

Due to its strategic location, the town could not escape siege, occupation and almost complete destruction during the Turkish occupation of Hungary. Subsequently, at the beginning of the 18th century, German, Croatian and Slavonic settlers moved into the by then uninhabited town, and they introduced an entirely new production culture to the area. Descendants of these settlers still form a peculiar, coherent ethnic community separate from the Hungarian majority in a geographic sense, as well. The ethnic group today lives in the part of the town called Kiskanizsa.

The commercial life of the town was revived from the 19th century onwards, and trade regained its leading role. In the 1860s, the railway line linking the town with Vienna, Pest and Fiume (now Rijeka) was constructed. In 1895, the first institution for the higher education of commerce in the country was opened in Nagykanizsa. It was during the same year that Nagykanizsa was connected to the telephone network linking the principal towns of the Monarchy as well. By the turn of the century, industrial and financial activities besides trading had also gained an increasing role in the economy of the town. The rapid social development accompanying the economic boom turned the town into the cultural and intellectual center of the region. The numerous civic associations, literary and artistic clubs, the Municipal Museum, the Municipal Library and the Kanizsai Dalárda (Choir) were all the outcomes of the intensive cultural and public efforts characteristic of the period. The majority of public and residential buildings so typical of the town’s character even today were also built during this time.

The consequences of the First World War brought radical changes into the life of the town. The peace treaties concluding the war and the political atmosphere thereafter isolated the town entirely from its traditional markets, and the earlier commercial center function of

Nagykanizsa practically ceased to exist. At the same time, the military strategic importance of the town situated at the south-western border of the country increased, Nagykanizsa became for decades (until the beginning of 1990s) an “army barracks town” because of the numerous outposts settled in the area. The army presence in the town became the reason for considerable infrastructural development, including water, sewage, public roads and public lighting. It is largely due to this development that the level of infrastructure in the town is almost 100 percent in present times.

One of the most important developments of the period affecting the economy of the town until this very day was the settlement of the oil industry in the town. The town thus became the center of the Hungarian oil industry concentrating the sectors of oil mining, research and development and the production of oil industry machinery.

Following the Second World War, the industry in Nagykanizsa continued to develop. The lighting tube factory of Tungfram, today one of the Hungarian member companies of General Electric, was inaugurated in 1965. Mention must also be made of the brewery, glass and furniture industries settled in the town during the same period. The most important event of the years following 1945, however, affecting the life of the town drastically and negatively was when Zalaegerszeg was declared county seat.

In the 1940s, Zalaegerszeg was still a tiny village, approximately 40 kilometers north-west of Nagykanizsa. Following its promotion to county seat, Zalaegerszeg enjoyed top priority in the county when central resources were allocated and in four decades became the actual economic, cultural, educational and administrative center of the county. Zala became a bipolar county. The continuous rivalry and competition between the two towns became fundamental elements of the aspirations and strategy of Nagykanizsa.

NAGYKANIZSA AFTER THE POLITICAL CHANGES AND ITS LONG-TERM STRATEGIC CONCEPT

Following the political changes, the economic situation of Nagykanizsa underwent the following significant changes:

Due to the reorganization of the country’s public administration, the old counties lost their significance, as a result of which the subordinated position of the town in contrast to Zalaegerszeg, the county seat, practically ceased to exist.

The army withdrew the troops that had been stationed in the town for decades, leaving behind numerous sport and recreational facilities.

Some of the state-owned corporations that earlier had an important role in financing the public functions and communal tasks of the town went bankrupt, while others were privatized. The relationship between the privatized companies and the newly established municipal local government developed differently from the earlier relationships.

The outbreak of the war in Yugoslavia and the introduction of the embargo diminished possibilities for trading and business life through the town; shopping tourism from Croatia, however, began flourishing as did numerous illegal forms of trading (for example, in the oil industry).

Nagykanizsa has approximately 56,000 inhabitants currently and approximately 120,000 people live in the agglomeration of the town. Of the towns examined, Nagykanizsa has the highest per capita budgetary expenditures in 1998.

Table 1
Budget per capita in the six cities

| 1996 | Szentes | Orosháza | Tatabánya | Nagykanizsa | Szolnok | Püspökladány |
|----------------------------------|---------|----------|-----------|-------------|---------|--------------|
| Number of inhabitants | 31,612 | 32,944 | 72,207 | 52,574 | 78,511 | 16,397 |
| Total budget (HUF million) | 2,850 | 3,766 | 5,263.5 | 6,196 | 8,279 | 1,268 |
| Budget per capita (HUF thousand) | 90.1 | 114.3 | 72.9 | 117.9 | 105.5 | 77.3 |

Source: County Statistical Yearbooks, 1996 and Budget Directives of the above Towns.

The economic transition left the sectoral structure of industry in Nagykanizsa practically unchanged. The principal industrial companies are G.E. Lighting Tungstram Rt.; DKG-EAST Rt. (a GAZPROM subsidiary), which manufactures machinery for the oil industry; and PANNONGLAS Rt., specializing in manufacturing tools made of heat resistant glass. The privatization of the brewery was unsuccessful; the new South African owner put an end to the independence of the factory and merged it into its Budapest holding. Significant green-field investments have not been realized in the town.

Owing partly to the above-mentioned shopping tourism, the commercial life and hotel/restaurant industry of the town was revived following the political changes. Direct capital investment in the town was also mostly targeted at this sector. The ratio of shop floor space per 1,000 inhabitants in the town is in excess of 700 m², which is higher than in most provincial towns.

The town is characterized by the dominance of small enterprises: only 48 businesses have more than 50 employees.

According to official statistics, the rate of unemployment is 11 percent, considerably higher than the county average (7 percent). The reality, however, is much more favorable since the majority of those officially registered unemployed are most probably employed in the black economy.

The strategic concept of Nagykanizsa is outlined in a document adopted by the general assembly in 1997 entitled "Medium-term social-economic program of Nagykanizsa county town". Nagykanizsa sees its own future as the "gateway of regions" at the meeting point of western and southern Trans-Danubia and the borders and has developed its medium and long-term plans accordingly. When developing the strategy, the management of the town took the traditions and geographic characteristics of Nagykanizsa as a basis and built the future of the town on the boom and exploitation of the south-western, primarily Croatian, Slovenian, and Italian trade.

A section of the outskirts of Nagykanizsa forms part of the ten logistical centers designated by the Ministry of Regional Development and prioritized on a nation-wide level. The people in Nagykanizsa have high expectations for this plan, primarily that the reconstruction of the M7 highway will accelerate as a result and within a few years, the road will reach the border of the country through the town. Approximately 70 percent of the 180,000 trucks heading annually to the Letenye border crossing point travel through Nagykanizsa. The same applies to approximately 80 percent of the 7 million passengers crossing the border.

The town's other development idea for furthering its regional importance and spanning borders is the establishment of an international produce market and produce exchange in conjunction with the logistical center. Nagykanizsa is already the center of the region's produce trade, with over 10,000 tons of goods reaching the town annually, but the modern collection, exchange, export of these goods is currently not yet solved.

Zalaegerszeg, the nearest and the most important competitor, has managed to successfully utilize its earlier privileged position and still has the advantage over Nagykanizsa in terms of almost all economic, educational (its has its own college), cultural and public administration indicators.

As the Ministry of Environment and Regional Development does not support the establishment of a logistical center in their territory, they try to develop it using their own resources. It is thus feared in Nagykanizsa that such a facility would be built in Zalaegerszeg

before the one in Nagykanizsa is completed.

The volume of foreign direct investment made at the county seat far exceeds the amount of capital invested in Nagykanizsa. Among these investment projects, there are several companies of regional orientation that Nagykanizsa would also welcome. Zalakerámia Rt., for instance, already has interests in Croatia as well through an acquisition transaction.

The regional ambitions of Nagykanizsa are also obstructed by the fact that it has practically no public administration infrastructure at a regional level. There is no registration court, tax office, or statistical office in the town.

A crucial development area within Nagykanizsa's medium-term plan is the modernization of education, within which priority is given to the establishment of an institution of higher education. The preparatory steps have already been taken, but the bottleneck seems to be at the governmental level; the accreditation by the state of the planned university has been pending for years.

Last but not least, the fundamental objective of the program is to improve the living conditions of the citizens of Nagykanizsa in every possible way.

Thus, one of the most important tasks is, according to the program, to always find the right balance in using the available resources for public consumption and development projects.

TASKS

In line with the strategic program of Nagykanizsa, the structure of local governmental tasks did not change considerably after the political changes. The binding vs. non-binding provisions of the Act on Local Governments do not influence the local government of Nagykanizsa in performing or not performing the various tasks.

The tasks taken over from bankrupt companies and from the army were not viewed by the local government as chores, as these primarily mean sports facilities. The town did not transfer any tasks to the county level. The county only operates the museum, the child protection institution and the GYIVI in the town. New mandatory tasks of the town, however, are the management of the fire brigade, the GYIVI and the construction authority.

Caring for the homeless is done by the local organization of the Red Cross. The local government and the Red Cross have a contractual relationship: the local government has no say whatsoever in the operation of the refuge for the homeless either in terms of financing or in professional issues. Due to the contract, however, the relationship is rather intensive.

Pursuant to the cooperation agreement, until this year the local put rooms and facilities at the disposal of the Red Cross free of charge. After next year, however, the organization will claim HUF 5 million from the local government in exchange for the continued provision of these facilities.

As a result of the above, the amount and structure of the normative subsidies do not directly influence the structure of the tasks performed by the local government. The systematic central changes affected in the normative system are viewed by the local government as additional superfluous administrative work.

Nor is there a direct relationship between the behavior of the institutions run by the local government and the normative subsidies. When allocating their funds, the institutions do not claim the normative subsidies due for them as they perceive the distance between the actual financing and the normative subsidies.

There is, however, an effort on the part of the local government to finance its own institutions in a normative fashion based on some system of quotas.

The budget figures of the city from 1993 to 1997 are contained in Appendix 1. Chapter 4, Secondary Education, gives a detailed outline of the area of education, one of the topics of strategic importance for the town. Chapter 5, Typical Organizational Forms of Municipally Supplied Services, reviews the individual local governmental tasks, their organizations and organizational forms operating in the town.

Each part related to a sector or service to be reviewed will consist of three units. Following the general descriptive information we shall discuss the financing issues in the particular sector and the issues of performance measurement. In the latter units we intend to show the channels through which the local government and population may obtain information on the quality or quantity of the particular services and how they can influence them in accordance with their own interests.

SECONDARY EDUCATION

Secondary education, as one of the main services areas in the city, represents an essential element in the attempts of the local government to modernize institution financing and in the coexistence and cooperation strategy of the large companies operating in the city.

All the six secondary schools of the town operating as independent institutions are complex facilities; that is, they all have in parallel secondary grammar schools, specialized

secondary schools and vocational training schools. In addition there is a Piarist secondary grammar school in the town, an institution fully independent from the local government, both economically and in terms of supervision.

The local government's strategy on the operation of the system of institution of secondary schools can be summed up in two concepts.

The Operation and Development Plan of the Institutional Network of Performing the Tasks of Public Education contains the education strategy of the local government for the period of 1997-2003, which had to be prepared by the local governments of every county and every town with the right of county on the basis of the provisions of Act LXII of 1996. That is in harmony in any detail with the county's development plan.

It was in conformity with the above concept that the town developed its detailed concept on the secondary schools, and the schools themselves also participated in that work. Every school had prepared its own pedagogy programs built on NAT, the National Basic Curriculum. These also contain the concepts the individual institutions originally had on education whether or not they are included in the NAT.

The professional part of the most varied educational concept is based primarily on the demands of the large companies, especially the oil companies operating in the town. The specialized secondary school Zsigmondy - Winkler is the site of vocational training for the oil industry at a nationally recognized level. The large companies—which also support the establishment of the planned foundation managed university—regularly transfer significant funds to the schools in order for them to retain the standard of secondary education, primarily in the case of the secondary school mentioned above. The support from companies is included in the funds received together with funds allocated from the Decentralized Vocational Training Fund and as well as funds gained from other applications. In 1996, depending on the actual school, the ratio of funds received within the total revenues of the schools varied between 7 percent and 33 percent (this number represents the Zsigmondy – Winkler Vocational Training School). Between the two extremes this ratio varied between 12-20 percent in particular years.

These contributions are significant in providing a rather secure financial backup for the schools, although the revenue per student varies a lot between schools, between HUF 130,000 and HUF 352,000 (Zsigmondy, 1996).

The tables showing the details of the budgets of individual schools are included in Appendix 2. Following is a discussion of the finance issues related to secondary education.

Financing

Planning the budgets

Up to 1996 budgets had been prepared on the basis of the demands of the institutions, by way of personal reconciliation meetings. By 1997 the method of planning changed, and on the basis of the financial capacity of the town the sector (education- public education) was given a predetermined total budget, and that sum had to be divided among the institutions on the basis of their demands and previous experiences. Reconciliation with the institutions was a very important requirement, especially in the area of personal benefits.

When preparing the budget for 1998. the budgeting method again changed. The town's options of drawing credit also limited the possibilities of the sector.

Planning expenditures for 1998

Once again the planning of the *remuneration of personnel* took place in close cooperation between the institutions, taking into account legislative provisions and earlier decisions taken by the local assembly (on the number of forms to operate, number of students per study group, number of teachers, and size of technical staff), since the definition of the size of staff and overtime work is an important task of the organization maintaining the school.

The attempts of the city mentioned above can be best seen in planning *overhead costs*, according to which it intends to develop a kind of normative settlement in their financing. For the first time in the education sector, the town tried to develop standards for planning overhead costs when preparing for the 1998 budget year. With catering and energy (water, gas, electric energy) costs treated separately, the rest of the overhead costs were summed up on the basis of 1995-1997 data both per institution and for the entire town. After that they tried to approximate the rather varying institutional values to the **town's average**. Although the energy and catering expenses, which represent the largest factor of distinction between the institutions, were taken out of the average calculations, in practice the approximation of the funds allocated to institutions to the town average can only take place gradually. The procedure is expected to be continued when preparing the budget for the year 1999.

Secondary educational institutions have received during recent years significant grants of HUF 8-40 million for vocational training, most of which was spent on development (for example, building lecture rooms, extending libraries, setting up a computer room, and purchasing of tractors). The operation and maintenance of the increased sets of assets created serious problems as the local government was not in a position to provide all the

necessary financial funds for such purposes. As a consequence the institutions were more moderate in planning their original overhead costs for 1998.

Planning revenues for 1998

With slight variations in the case of the individual institutions, the revenue—in addition to the funds received from the local government—was composed of the following elements:

On the basis of raw material (food) norms approved by the local assembly, every institution plans the revenue items “Institutional Supply “ (catering for the students) and “Contribution by Employees” which form part of their own revenue.

The schools do not plan to receive appropriations from sources outside the state budget, but it is here that they settle the funds received from companies, enterprises, private persons specifically for vocational training. The relevant sums differ from institution to institution, most likely due to the tradition developed in the course of several (ten) years, the capability of the head of the institution and of the colleagues to establish and maintain good relationships, or the exploitation of the nationally unique situation of providing training for the oil and gas industries in the case of the Zsigmondy-Winkler secondary school. Out of the secondary schools this school enjoys the greatest support, as not only the oil companies of the region (MOL Rt., Fúrás, DKG EAST), but also those of the Great Hungarian Plain support vocational training there. It seems that in the course of the past few years a practice has emerged, namely that support for vocational training is linked to some kind of service in exchange, usually the organization of adult training courses. Occasionally the gymnasium or some other hall is requested to be made available for a minimal fee or free of charge.

Institutions often make use of opportunities to apply for funds, and the funds so received are considered grants. All the secondary schools received funds through participation in the SULINET program; they were invited for the first time in 1997 by the Ministry of Culture and Education and as a result have entered the internet network.

The own fee based revenues of the schools are earned from the supply of the following services:

Catering fees

The sale of places of accommodation in student hostels

Fee for the rent of halls

Fees for participation in training courses

The size of fees depend on the following:

- Calculated prime cost of services
- Local government considerations
 - The fees charged by fellow institutions
 - And the quality of demand in relation to the services

The proportion of fee income within total revenues of the institutions is described in Table 2. Among the fees, only rent income is shown separately, while the catering fees, accommodation fees and course fees are included in the income related to core activities.

Table 2
Revenue from schools

| 1996 (HUF Thousand) | Cserháti | Zsigmondy | Batthányi | Mező | Széchenyi | Thury |
|--|----------|-----------|-----------|---------|-----------|--------|
| Total income | 147,606 | 226,225 | 137,922 | 129,550 | 133,486 | 96,027 |
| Income from core activities | 1,753 | 20,441 | 5,431 | 4,367 | 3,154 | 832 |
| Rent income | 2,761 | 796 | 674 | 5,241 | 166 | 1,503 |
| Other institutional revenues | 13,527 | 12,977 | 11,026 | 9,016 | 3,462 | 3,930 |
| Total own revenues | 18,041 | 34,214 | 18,131 | 18,624 | 6,782 | 13,754 |
| Ratio of own revenues within the total revenues (Percent) | 12 | 15 | 13 | 14.3 | 5 | 14.3 |
| Ratio of revenues related to core activities and rent income within the total revenues (Percent) | 3 | 9.4 | 5.2 | 7.5 | 2.5 | 10.2 |

Source: Department of Education

Although the ratios of own revenues within the total revenues are very similar (with the exception of 5 percent at Széchenyi) the figures in the last line comparing the fee income of the individual institutions differ quite a bit. The fee income at Zsigmondy and Thury secondary technical schools is extraordinarily high (9.4 and 10.2 percent). Appendix 3 presents in detail the calculation techniques of the various fees.

Performance Measurement

There is no uniform, standardized system of tools available to assess performance. The system of specialized supervisors is no longer available. Professional control is the responsibility of the cultural section of the office of the local government. Thus the task is solved mainly by maintaining personal links.

In addition to studying the reports every institution has to submit at the end of the year, each year the local assembly invites one school to report back on the professional experiences gained during recent years.

The economic management of the institutions is investigated annually by an auditor team of two members selected from among the employees of the office. In principle, the chambers also play a role in monitoring vocational training. The Cultural Section also reads the minutes of the teachers' meeting held at the end of the year. Student results achieved at knowledge-based competitions and foreign language examinations also help assess the performance of the schools. School boards are operating and they have the right to comment on matters. Sponsoring companies have representatives on the school boards. However, it cannot be said that the numerous controlling channels as mentioned above constitute a standardized feedback system.

TYPICAL ORGANIZATIONAL FORMS OF MUNICIPALLY SUPPLIED SERVICES

The various methods used for the organization of services raise several issues not necessarily related to economic viability. The reorganization of services within the office or placing out such services to businesses outside the office generally harm the transformation of control and responsibility competence. Public opinion in the town and in the office is divided on the success of reorganization efforts. The emergence of different decision making centers and different control mechanisms over the funds as a consequence of changing organizational forms make public opinion also suspicious of corruption. We now present four tasks and services operated in Nagykanizsa in different, typical forms of organizations. The full list of companies and institutions providing public services in the town is included in Appendix 4.

The House of Culture

Public education and cultural life in the town is based on the following organizational arrangements:

Institutions maintained by the local government:

- Library
- Móricz Zsigmond House of Culture
- Hevesi Sándor Cultural Center (HSMK)

Institutions not operated by the local government:

- Kodály Zoltán House of Culture
- Erkel Ferenc House of Culture of the Timepiece Industry
- Military Casino

Various associations, clubs, civic organizations:

- The local organization of the Association for Public Education in Sciences
- Hely-Klub (Local Club)
- Miklósfa village house

Community festivals; events organized and financed by sponsors and entrepreneurs:

- Cinema
- Cultural manager office
- Other festive events

The local government supervises only the institutions that it operates. The major part of the money allocated to the sector is used to maintain these municipal institutions. The Móricz House of Culture, which only started operating as an independent institution on January 1, 1998, with about one tenth of the budget of the cultural center. The Móricz House of Culture was established mainly for political reasons, as it became a symbol of the independence endeavors of Kis-Kanizsa within the town.

The Hevesi Sándor Cultural Center operates under conditions identical to the conditions of the other institutions of the local government, for example:

The local government is the founder and the sponsor of the institution. When establishing the institution it determined the conditions of the institution's operation in the Foundation Deed. That can be amended at any time by the local assembly.

The operation of the institution is detailed in the Regulations on Organization and Operation.

The director of the house of culture is appointed by the Assembly.

The Assembly delegates to the Mayor the rights of employer over the director, so in issues such as vacationing, bonuses, and honorary decorations of the director only the Mayor's signature is required.

Professional control is exercised by the Cultural Section through a senior cultural officer.

Within the cultural center the director exercises the rights of employer. The Hevesi Sándor Cultural Center has a staff of 30 members. The employees have a collective bargaining agreement. The director is a member of both the assembly of representatives and

of the cultural committee.

Financing

Even in nominal terms the grant received from the local government by the institution has been decreasing year after year. The 4 percent increase in real terms of the transfers from the local government between 1994 and 1995 was followed by a 21.7 percent drop between 1995 and 1996 and a 16.7 percent drop from 1996 to 1997 calculated in real terms. The local government is not obliged to use the fund applied for from the central budget under the title “target public education tasks” for this purpose, and in Nagykanizsa they do not separate in any standard based way the sum to be transferred to the cultural center from sums allocated to other tasks. One cannot unambiguously establish what portion of the funds made available by the local government to the cultural center comes from local government fund and what portion comes from the central budget.

During the period under study the house of culture spent on the average 53 percent of total expenditure on *staff costs and relevant levies* and that percentage consumed practically all of the grants received from the local government.

Approximately one third of the own revenues of the institution comes from the lease of the building. The theater hall with 530 seats is unique in the town and its surroundings, so it earns a considerable income for the Hevesi Sándor Cultural Center. The rent income generated by the theater hall represented 9.5 percent of the total revenues of the institution in 1995, 10.2 percent in 1996 and 12.4 percent in 1997.

In 1997 the center organized 247 events and hosted 665 events based on rent. The own programs of the cultural center are organized with a relative loss compared to leasing, even in the best case scenario. For details of economic management see the table on Appendix 5.

Performance measurement

Prior to 1990 the professional qualification of the institutions was the responsibility of the County Council through the county’s specialized supervisory system. Today the case is different. There are no longer district offices either, so the institutions which used to serve the districts were also left without supervision. Nor is the central system of public administration suited to control professional work. According to the director it would be the responsibility of the local government to control the quality of the work performed in its own institutions, or rather to have it controlled by some expert facility, but that would be costly and in many cases it would lead to unpleasant surprises.

Road and bridge maintenance

Since March 1, 1996, roads have been maintained by VIA-Nagykanizsa Ltd., a company fully owned by the town, and which is headed by the former head of the town operation group of the office.

The key areas of the activities include the filling up of spring and autumn potholes, the repair of depressions of roads and pavements, the restoration of breakage's, the repair of limestone and earthen shoulders of roads, the cleaning and repair of ditches and canals used to drain rain water, the replacement or supplement of traffic boards, operation of traffic lights and painting signs on the pavement.

In addition the firm maintains the cemeteries and operates the parking lots of the town. The conclusion of contracts with sub-contractors come under the exclusive competence of the company. The Ltd. operates with a staff of 20 employees; 1 secretary, the managing director and nine employees who perform site tasks in car parks and nine who work in the cemetery.

Three documents regulate the organizational conditions:

- The Deed of Foundation,
- The work contract of the managing director
- The cooperation agreement between the local government and the Ltd.

The Deed of Foundation contains the items stipulated by the company act (ownership composition, range of operations, etc.). The work contract regulates relationship between the owner and the managing director. The cooperation agreement contains all the tasks entrusted to the Ltd. by the local government. Thus the firm performs the above listed tasks on the basis of **commission contract**.

The three documents contain the following important items:

The contract of the managing director is signed for a period of 2+2 years; he earns a fixed salary and is responsible for the firm with his entire estate.

The mayor exercises the rights of employer over the managing director.

The firm has no formal legal relationship with the office.

Contracts with value over HUF 1 million are signed also by the mayor.

The only owner is the local government; ownership rights are exercised by the

assembly through the approval of the annual report submitted at the end of the year and the business plan for the coming year. The local government cannot withdraw the profit of the firm (earned from the operation of the cemeteries and the parking lots) as it has to be spent on the roads.

Naturally the firm can undertake works - the types of which are included in its range of operations—independently on the market as part of its entrepreneurial activity.

Financing

The method of financing tasks performed by VIA—Kanizsa is rather unclear. Some of the road maintenance works are financed by way of cross-financing from the profit earned from the operation of parking lots (see Appendix 6). On the basis of a proposal by the management of the Ltd., the council decides on the cemetery and parking charges for the next year as well as the funding to cover road and cemetery maintenance. The planned volume of road maintenance work is subject to the above factors. Between 1996 and 1997 the sum spent on road maintenance decreased by 8.5 percent (the data of 1996 relate to 10 months) and within that, the ratio of funds transferred by the local government changed from 82 percent to 69 percent. On the necessary and optimum volume of the road maintenance works as well as on all the above sums the managing director can only submit proposals; the final decision is in the hands of the assembly.

It follows that the financing of the tasks to be performed by the firm—similar to the tasks left with the office—are subject to the budget policy. An obvious advantage of the arrangement is that the VAT charged on the costs of the firm can always be reclaimed.

Both the leadership of the town and the managing director of the firm regard, as another advantage of this form of organization that the conditions permit work to be performed more efficiently than possible within the framework of the office.

Performance measurement

The structure of parking fees has become much more up-to-date after the establishment of the Ltd. Fee collection became more efficient, having increased by leaps and bounds (For the details on the operation of the parking lot see Appendix 6.). However, one can not see whether similar positive changes took also place in the area of the utilization of resources, in volume and tendency.

The local assembly and its competent committee supervises the economic

management of the Ltd. on the basis of the annual business plan and the annual report. The firm is being continuously audited, every transaction can be checked, yet the local government as owner cannot authentically assess the operation of the company professionally and economically in the absence of relevant expertise.

The Ltd. checks and supervises the performance of sub-contractors. The limits of the works ordered by the Ltd. remain below the limits specified in the Act on Public Procurements. Despite this fact, the work is assigned to contractors based on proposals and quotations or based on tenders.

The commission agreement in force between the local government and its own firm does not specify in relation to the task to be performed any concrete quality and performance measurement issue; in other words there is no legal relationship whatsoever between the Ltd. and the local government office which used to perform those tasks earlier.

Garbage collection

Saubermacher-Ryno Kft, an Austrian-Hungarian joint company, collects the garbage in the town on a contract basis. The contract has a rather complex privatization history.

The method of the transformation of the service companies of the local government is linked to a representative with the name Aladár Jesch, who believed in radical and prompt privatization. As a consequence most of the experts in the three former service companies of the local government are performing their earlier tasks either as owners or employees of the by now private firms.

Before the transformation of the political/economic system the local government had three service companies: IKV, the managers of housing properties and business premises, VGV, responsible for public areas, and Út-Híd Karbantartó Vállalat (Road-Bridges Maintenance Company). IKI became the successor of IKV, managing the properties with annual loss of about HUF 40 million, through cross-financing.

The services of the other two companies are now, from the aspects of organization, supplied by private companies.

Út-Híd Karbantartó Vállalat was the first to be transformed in 1992 in a way that is known as RYNO model, and which became the standard for privatization in the town after transformed into RYNO Kft.

According to the model a group of the company employees establishes a new Ltd., re-employs the staff of the old company, leases the plot and the premises for a term of ten years and purchases the assets on installments, with a grace period of three years.

Already in the first year after its establishment, RYNO Kft. collected its orders mostly from the market.

In September 1993, RYNO Kft. established a joint company with the Austrian firm Saubermacher, and was awarded with the contract of garbage collection.

Since 1993 the company has had a long term contract in force with the local government, which has been modified several times. (For ten years after the implementation of the selective garbage collection the contract cannot be terminated by the local government).

The contract specifies exactly where, in which parts of town and with what frequency the service must be provided. It also specifies the fee of the service, which is to be corrected annually by the official inflation rate. Thus the contract in force between the local government

and the company contains a guaranteed sum. Within that sum the local government has the right to set the fee, that is it is free to decide what ratio of the contracted sum is to be recharged to the households (Appendix 8 details the structure of the fee paid for garbage removal). The local government paid the arrears and the benefits to the firm until 1997, and from 1998 the company has managed its arrears within its own scope of competence.

For the removal of waste which is not household garbage the firm and the given company conclude separate contracts.

Performance Measurement

Performance measurement is the biggest problem area in the contract. Nobody can tell whether the quality of the service has improved or deteriorated during the past few years since the change took place; the contract fully neglects this issue and has no provision on quality or performance.

Garbage deposit

The landfill is operated by a company established jointly by the local government and Saubermacher-Ryno Kft., the garbage collecting firm. The local government owns 51 percent of the firm. The facility itself is owned exclusively by the local government. The local government obtained its business quota by cash contribution.

The key issues are to be decided on by the firm on consensus. The Deed of Foundation lists the issues on which the co-owners must agree.

One such issue is the fee to be paid for garbage deposit. The fees paid for garbage deposit cover operation costs and include a profit margin of 10 percent. This 10 percent is not sufficient for the construction of a new deposit site to be used when the current site is full.

The business plan and the balance sheet report are approved by the membership meeting. When approving the business plan that they decide on the fee to be paid for depositing the garbage. The mayor himself represents the local government on the membership meeting. The chairman of the three-member Supervisory Board is a member of the Council and the other two members are delegated by the co-owner and the employees.

The local government plans to build a new facility. Various central funds are likely to cover 90 percent of the project cost. The new facility will also be owned by the local government and it is expected to be operated by the same firm that operates the current landfill.

The fee to be paid for the use of the new landfill is an open question. If the local government cannot get funds to build the facility after the next landfill is filled up, it will have to also build the costs of the future project into the fee, which would lead to a drastic increase in the fee, and, consequently, in the garbage collection fee households would have to pay. If the local government is unwilling to raise the garbage collection fee to such an extent it will have to finance the next project out of its own pocket in 15-20 years time.

If the local government does not succeed in building the new landfill alone, it will have to involve private capital, and then the increase in garbage collection fee will become inescapable.

Performance Measurement

It is an unambiguous and simple task to measure the performance of landfills. Every modern deposit has technical specifications and detailed technological instructions for operation. Quality can be guaranteed if the operation of the landfill follows the instructions. This can be regularly checked. The current garbage deposit does not meet any environmental requirements, or the requirements of up-to-date technology.

The local government always has the option of monitoring the economic management of the landfill, just as any owner or co-owner of any other economic organization.

INVESTMENTS AND PROPERTY MANAGEMENT

The data on the investment projects executed in Nagykanizsa after the change of the political/economic system are presented on the following table:

Table 3
Investments and loans (in constant 1998 forints)

| Investments and loans | 1993 | 1994 | 1995 | 1996 | 1997 | Total |
|---------------------------------------|---------|---------|---------|-----------|-----------|-----------|
| Accumulation and capital type | | | | | | |
| Central development resources | 297,025 | 443,769 | 577,423 | 334,594 | 86,833 | 1,739,644 |
| Local development income | 512,411 | 822,444 | 706,539 | 1,077,918 | 1,077,878 | 4,197,189 |
| Income from the sale of assets | | | | | | |
| Sale of property | 440,322 | 637,736 | 582,491 | 555,983 | 223,613 | 2,440,144 |
| Sale of bonds | 7,682 | 114,528 | 7,906 | 370,574 | 648,152 | 1,148,842 |
| Revenue earned from the utilization | | | | | | |
| Revenue earned from the utilization | 1,665 | 1,113 | 1,952 | 17,559 | 18,947 | 41,236 |
| Interest income | 54,333 | 46,961 | 65,445 | 120,737 | 172,790 | 460,266 |
| Recovery of investments, dividend | 8,409 | 22,106 | 48,745 | 12,565 | 12,927 | 104,752 |
| Revenue from the utilization of other | | | | 500 | 1,449 | 1,949 |
| VAT refund | 77,341 | 67,499 | 58,477 | 39,278 | 105,776 | 348,371 |

| Investments and loans | 1993 | 1994 | 1995 | 1996 | 1997 | Total |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Other financial assets transferred | 166,825 | 216,880 | 3,358 | 112,084 | 59,557 | 558,705 |
| Total | 1,053,601 | 1,550,592 | 1,345,797 | 1,563,875 | 1,330,044 | 6,843,909 |
| Accumulation and capital type | | | | | | |
| Rehabilitation project | 271,971 | 63,578 | 131,482 | 385,378 | 169,746 | 1,022,154 |
| Investment, development projects | 663,598 | 1,001,362 | 1,162,438 | 1,103,076 | 739,917 | 4,670,391 |
| Total | 922,685 | 1,064,940 | 1,293,920 | 1,488,453 | 910,813 | 5,680,810 |

Source: Finance Department

Between 1993 and 1996 the investment and capital type expenditures gradually increased and in 1997 they dropped to 61 percent of the expenditure in 1996. Within those, the increase of funds spent on capital expenditure and development stopped in 1996 and the increase of accumulation and capital type expenditure in 1996 was assisted with the approximately HUF 385 million spent on refurbishment and reconstruction.

Compared to the expenses, the accumulation and capital type income specific for individual years show a much more variable picture and are almost fully in line with the fluctuation of local development income and, within that, income from the sale of properties (except in 1996). Consequently, in 1995 revenues and expenses changed contrary to each other. Income dropped by 13.2 percent and expenses increased by 21.5 percent.

The table shows very well that the accumulation and capital type income exceeded the accumulation and capital expenses every year (even in 1995), i.e., part of the funds, i.e., 12.5 percent 31.3 percent, 3.8 percent, 4.8 percent and 31.5 percent from 1993, was used for operation. Due to the key military role the town had been playing for decades it had comparatively well developed infrastructure at the time of transformation. Various central and retail resources were used to finance the development of the sewage system since that time for a cost of about HUF 1.5 billion.

There are, however, several postponed investment obligations and some of which are due to be executed in the near future. 13 primary schools of Nagykanizsa are in very bad technical state and are poorly equipped. For the extension and rehabilitation of one of those schools the town received from the Ministry of Interior a targeted subsidy; the value of the works to be completed by the year 2000 will be around HUF 370 million. HUF 600 million will be needed for the reconstruction of the town's hospital. The construction of the sludge treatment works has been dragging on for years because the town could as yet not collect the HUF 75 million required as own fund to execute the investment project at a cost of HUF 250 million.

Next to the logistic center planned to be built in the outskirts of the town the local government would also like to establish an industrial park, which is also part of the town's

medium term development concept. The construction of the new landfill site - an issue which is becoming increasingly urgent- will be one of the biggest projects in the near future. The resources of the project are still not fully available. The town has decided to erect the building of the Nagykanizsa University out of its own resources. The local government hopes the project will become reality in a few years time.

The case of the Vásárcsarnok (Market Hall)

This is the single project of large volume in the town, representing approximately 21.8 percent of the total capital expenditure volume of the period from 1993 to 1997, executed out of its own resources, i.e. without transfers or support from the central budget, and related to a key strategic objective of Nagykanizsa, namely to develop into the regional commercial center.

Shopping tourism and the economic recovery of retail trade after the transformation of the political/economic system made the leadership of the town decide to build a new market hall of a standard that would meet any requirement.

After that the local government established a fully owned limited liability company by the name of Alfától Omegáig Kft. which purchased the firm that possessed the plot selected by the local government and had already started construction work there. At that time the local government foresaw a cost of HUF 4-500 million. It planned to contribute HUF 250 million in cash and obtain the rest through the continuous sale of shops. In the meanwhile however, the project costs proved to be much higher than planned and the local government was compelled to draw credit for the completion of the works. The cost of the project was further increased by the originally unplanned purchase of plots around the building. This area was needed for the building of parking lots and for the roads required for access to the facility. The firm is currently in the process of liquidation.

The market hall has finally been completed at a cost of over HUF 1 billion and is to a great extent underutilized or empty. Of the 27 shops still owned by the local government half are planned to be sold and the rest to be leased—so far without much success.

Property management

The town has no property management concept. In 1991 one single employee was in charge of property management, and later the size of staff was increased to 5. Since 1995 an independent Property Office has been in charge of property management. The Property Office operates on the basis of annual plans composed by the local assembly when developing the budget, depending on the size of the sums needed to fill budget gaps.

The property structure after the transformation of the country's political/economic structure was as follows.

Table 4
Municipally Owned Property

| Property elements | Value compared to total value (Percent) |
|--|---|
| Approx. 5,800 flats + premises | 50 |
| Institutional property | 20 |
| Shares of plots, land within the town's boundaries | 30 |

Source: Property office

After rapid privatization earning an average annual revenue of HUF 400-500 million, about 1,500 flats remained in the town's ownership.

The share portfolio, which has grown to the nominal value of some HUF 820 million together with the shares in gas and electric companies, is managed and sold by the town through various broker firms. The relevant committee and the local assembly have to decide on the sale of shares.

The local government is eager to purchase land around the town; then the land would be supplied with utilities, attached to areas within the administrative boundaries of the town and sold with profit. 25 hectares of land was purchased for this purpose in 1991, followed by 48 in 1996, at HUF 150 and 200 per square meter; the plots were then sold for a profit of HUF 400-500 million.

SUMMARY

Nagykanizsa could escape the social tension which emerged in many towns of Hungary largely due to shopping tourism and the activity of local small and medium sized enterprises; because of its geographic position it was able to implement the economic transformation on an even keel.

From the very beginning the local government had the objective (as stated also in its strategic program) of making the citizens of the town feel as comfortable as possible under the given conditions. Accordingly, similar to the economic performance of the town local government services, undertakings have been going on smoothly during the transition.



The local government was capable of achieving the above objective without major budgetary restrictions, and without the introduction of state of the art budgetary techniques. They were able to fill budgetary gaps mostly with privatization revenue. The budgetary stability of the town is seen also from the fact that they have been able to manage the consequences of the market hall project for which the local government had to spend HUF 1 billion out of its own resources.

It is impossible to foresee the ill-effects that the current, rather loose economic management will have on the development potential of the town. There seem to be far too many postponed projects, primarily in sectors that are less capable of realizing their interests and are less visible (general schools, the sludge treatment plant, the landfill).

We would recommend concentrating the technical grant program primarily on the areas of performance measurement, as the structural forms—different from traditional ones—established in the areas of some services give rise to many disputes. A reliable, authentic system of assessing performance in any service area could give reassuring answers to many issues currently troubling public opinion.

APPENDIX 1

Entire Budgetary Structure (in constant 1998 forints)

| Revenues (HUF thousand) | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|-----------|------------|-----------|-----------|-----------|
| A Total revenue | 9,720,764 | 11,132,030 | 9,637,025 | 8,426,463 | 8,278,155 |
| 1 Centrally regulated sources of operation | 5,376,722 | 5,622,291 | 4,969,831 | 4,306,576 | 4,064,368 |
| 1.1 Personal Income Tax | 814,837.1 | 859,897.9 | 863,348.1 | 764,948.3 | 711,465.9 |
| 1.2 Supplement to Personal Income Tax | | | | | |
| 1.3 Norm based subsidies | 2,892,569 | 2,664,415 | 2,351,208 | 1,726,283 | 1,662,905 |
| 1.4.1 Education | 1,746,551 | 1,672,191 | 1,433,458 | 1,153,810 | 1,132,421 |
| 1.4.2 Culture | 36,431.05 | 30,585.07 | 24,534.2 | 19,042.72 | 32,891.15 |
| 1.4.3 Sports | 7,285.179 | 6,116.58 | 4,740.46 | 3,808 | 6,964.4 |
| 1.4.4 Health care | | | | | |
| 1.4.5 Socials | 52,6710.5 | 488,174.7 | 363,161.3 | 340,276.1 | 382,493.5 |
| 1.4.6 Others | 575,591 | 467,347.9 | 525,313.7 | 209,346.2 | 108,134.5 |
| 1.5 Centralized appropriation , Force majeure, | | | | | |
| 1.6 Social Security transfer | 1,506,182 | 1,926,024 | 1,698,560 | 1,504,057 | 1,542,693 |
| 1.7 Central subsidy received for operation | 163,134.4 | 171,954 | 56,715.44 | 311,287.7 | 147,304.7 |
| 2 Own current operation revenue | 2,241,294 | 2,074,310 | 2,227,792 | 2,202,007 | 2,218,640 |
| 2.1 Revenue earned from basic institutional operation | 1,542,267 | 1,403,271 | 1,332,367 | 1,058,049 | 1,040,279 |
| 2.2 Levies | 72,501.32 | 63,497.48 | 67,425.68 | 85,852.72 | 85,783.1 |
| 2.3 Other revenue earned from the basic operations | 461.283 | 331.857 | 638.236 | 591.6 | 261.05 |
| 2.4 Total local taxes | 328,248 | 385,431.3 | 570,276.5 | 608,755 | 645,789.4 |
| 4.4.1 Business tax | 237,934.4 | 308,431.8 | 319,518.8 | 384,156.5 | 483,962.6 |
| 2.4.2 Tax on plots | | | | | |
| 2.4.3 Tax on buildings | | | 187,766 | 177,127.8 | 157,992.8 |
| 2.4.4 Communal tax | 90,313.54 | 76,999.5 | 62,991.7 | 47,470.8 | 3,834.1 |
| 2.4.5 Tourist tax | | | | | |
| 2.5 Tax on vehicles | 44,365.63 | 36,758.04 | 27,434.04 | 70,080.8 | 63,123.5 |
| 2.6 Funds received for operation | 253,450.5 | 185,020 | 229,650.4 | 378,678.4 | 383,404.3 |
| 3 Accumulation and capital type income | 1,053,601 | 1,550,592 | 1,345,797 | 1,563,875 | 1,330,044 |
| 3.1 Central development resources | 297,025 | 443,768.7 | 577,423.4 | 334,594 | 86,833.05 |
| 3.1.1 Target and single purpose subsidies | 297,025 | 443,768.7 | 577,423.4 | 334,594 | 86,833.05 |
| 3.1.2 Development Councils | | | | | |
| 3.1.3 Other central funds | | | | | |
| 3.1.4 Other central development subsidies received | | | | | |
| 3.2 Local development revenue | 512,410.7 | 822,443.6 | 706,539 | 1,077,918 | 1,077,878 |
| 3.2.1 Revenue earned from the sale of assets | | | | | |
| 3.2.1.a - Sale of property | 440,321.7 | 637,735.9 | 582,490.5 | 555,983 | 223,612.9 |
| 3.2.1.b - Sale of bonds | 7,682.037 | 114,527.5 | 7,906.38 | 370,574.2 | 648,151.5 |
| 3.2.2 Revenue from the utilization of assets | | | | | |
| 3.2.2.a - Revenue from housing property | | | | | |
| 3.2.2.b - Revenue from property other than housing | 1,664.742 | 1,112.697 | 1,951.756 | 17,558.96 | 18,947.4 |
| 3.2.2.c - Interest revenue | 54,333.47 | 46,961.02 | 65,445.29 | 120,736.7 | 172,789.8 |
| 3.2.2.d Recovery, dividend on investments | 8,408.751 | 22,106.45 | 48,745.06 | 12,565.04 | 12,927.15 |
| 3.2.2.e Revenue from the utilization of other assets | | | | 500.48 | 1,449 |
| 3.2.3 Financial assets received from the citizens for | | | | | |
| 3.4 VAT refund | 77,340.92 | 67,499.28 | 58,476.9 | 39,278.16 | 105,775.9 |
| 3.5 Other financial assets received | 166,824.7 | 216,880.5 | 3,357.896 | 112,084.4 | 59,557.35 |
| 3.5.1 For operation purposes | | | | | |
| 3.5.2 For development | 166,824.7 | 216,880.5 | 3,357.896 | 112,084.4 | 59,557.35 |
| 4 Credits | 515,400 | 1,294,785 | 431,250.5 | | 115,000 |
| 4.1 For operation | 515,400 | 1,007,238 | 331,172.1 | | 115,000 |
| 4.2 For development | | 287,546.5 | 100,078.4 | | |

| Revenues (HUF thousand) | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|-----------|------------|-----------|-----------|-----------|
| 5 Residual fund from the previous year | 400,146.3 | 370,948.9 | 347,210.5 | 241,767.2 | 267,378.5 |
| 6 Balancing, pending, carried over revenues | 98,029.08 | 216,962.9 | 310,575.1 | 62,604.88 | 135,954.2 |
| 7 Other revenue | 35,570.33 | 2,140.803 | 4,568.692 | 49,633.2 | 146,771.1 |
| Expenditure | | | | | |
| 1 Total expenditure | 9,323,743 | 10,519,127 | 9237478 | 7914559 | 7543759 |
| 2 Operation expenditure | 7,058,444 | 7,328,665 | 6,747,601 | 5,641,523 | 5,593,401 |
| 2.1 Personnel type costs | 2,904,300 | 3,072,243 | 2,709,775 | 2,373,766 | 2,380,256 |
| 2.2 Social security | 1,198,802 | 1,276,966 | 1,144,446 | 962,401.3 | 1,103,209 |
| 2.3 overhead | 2,955,342 | 2,979,456 | 2,893,380 | 2,305,356 | 2,109,936 |
| 3 Financial subsidy to citizens | 301,990.9 | 313,611.4 | 316,726.7 | 285,272.2 | 356,335.6 |
| 4 Subsidy to companies and other organs | 414,000.2 | 476,967.4 | 234,414.5 | 359,019.6 | 431,222.4 |
| 5 Rehabilitation projects | 271,971.4 | 63,577.73 | 131,481.7 | 385,377.8 | 169,745.8 |
| 6 Investment, development projects | 663,598.1 | 1,001,362 | 1,162,438 | 1,103,076 | 739,916.9 |
| 7 Debt service | 445,687 | 1,270,099 | 637,037 | 54,077.68 | 95,578.8 |
| 7.1 interest payment | 44,216.17 | 58,931.73 | 111,470.7 | 47,772.72 | 40,797.4 |
| 7.2 amortization of principal | 401470.8 | 1,211,167 | 525,566.3 | 6,304.96 | 54,781.4 |
| 8 Other expenditures | 55,088.53 | 45,828.8 | 9,977.7 | 33,322.72 | 8,482.4 |
| 9 Carried over, pending expenditure | 112,962.8 | 19,015.62 | -2,199.3 | 52,890.4 | 149,075.7 |
| 10 Residue money | 440,726.3 | 447,208.8 | 299,364.7 | 316,204.1 | 708,520.8 |
| 10.1 Closing stock of financial assets | 351,678 | 576,103.8 | 397,693.4 | 399,229.4 | 811,662 |

Source: Finance Section

The table shows very well that the town has gained fewer and fewer revenues in real terms each year since 1994. One of the reasons for that was the drastic decline of centrally regulated operating funds (between 1994 and 1997 the decline was 27.7 percent; within that figure the normative subsidies dropped by 37.6 percent).

This offset very slightly the local tax revenues which increased every year during the period. Between 1993 and 1997 the amount of local taxes nearly doubled. The most important tax type is the business tax which in 1997 represented 75 percent of the total tax revenues. Despite the dynamic increase of tax revenues, the ratio of tax revenues within the total income did not exceed 7.8 percent in 1997 (in 1993 the ratio was only 3.3 percent).

Detailed analysis of the structure of accumulation and capital type income and the funds spent on capital expenditure and refurbishment took place above in section 6. Within the total revenues the ratio of accumulation and capital type income remained below 18.5 percent during the entire period (1996) while the ratio of capital expenditure and refurbishment within the total expenditure was slightly lower, on average 10 percent.

In 1994 and 1995, during the period of construction of the market hall, the loans taken involved very large amounts. At the same time, it is interesting that the majority of the loans taken (78 percent in 1994 and 77 percent in 1995) was used for operation purposes according to the budget. In 1994 the loans taken represented 11.6 percent of the total revenues.

Within the total expenditure the ratio of operating expenses never fell below 70 percent

during the entire period. After the extraordinary year of 1994, the debt service expenses reduced moderately between 1994 and 1995 and considerably from 1996 to 1997, involving almost 93 percent. All this indicates that the city managed to overcome the financing difficulties caused by the market hall project by the end of the period, despite the not too significant increase in the debt burden in 1997, and with the declining amounts of transfers from the central budget each year. It also managed to stabilize its loan portfolio and loan requirements at a relatively low level.

APPENDIX 2

The economic performance of Cserháti Sándor Mezőgazdasági és Gépészeti Szakközépiskola és Kollégium (Cserhát Sándor Secondary School and Hostel Specializing in Agriculture and Engineering (HUF thousand)

| Name | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|--|---------|---------|---------|---------|---------|---------|
| REVENUE (I-IV.) | 113,255 | 128,424 | 120,094 | 147,906 | 171,584 | 152,942 |
| I. BUDGETARY SUBSIDY | 86,420 | 99,109 | 87,859 | 100,208 | 113,837 | 130,407 |
| ~ Central norm based subsidy | 51,018 | 49,566 | 47,718 | 63,333 | 71,788 | 82,479 |
| ~ Local government subsidy | 35,402 | 49,543 | 40,141 | 36,875 | 42,049 | 47,928 |
| II. OWN REVENUE | 7,777 | 9,342 | 14,547 | 18,041 | 21,720 | 18,535 |
| ~ Revenue on basic activities. | 1,860 | 2,561 | 2,703 | 1,753 | 2,776 | 1,345 |
| ~ Leasing of premises | 266 | 466 | 1,916 | 2,761 | 5,470 | 4,000 |
| ~ Other types of institutional revenue | 5,651 | 6,315 | 9,928 | 13,527 | 13,474 | 13,190 |
| III. FINANCIAL ASSETS RECEIVED | 13,960 | 18,161 | 16,426 | 28,185 | 24,471 | 4,000 |
| ~ Financial assets received for operation | 13,960 | 41 | 107 | 9,055 | 6,367 | 4,000 |
| ~ Financial assets received for accumulation | — | 18,120 | 16,319 | 19,130 | 18,104 | — |
| IV. RESIDUE MONEY | 5,098 | 1,812 | 1,262 | 1,472 | 11,556 | |
| EXPENDITURES (I-II.) | 111,443 | 126,662 | 118,622 | 136,350 | 162,563 | 152,942 |
| I. OPERATION EXPENDITURE | 105,730 | 110,174 | 114,175 | 127,541 | 154,045 | 152,942 |
| of which: ~ Payroll and payroll taxes | | | | | | |
| II. ACCUMULATION TYPE EXPENDITURE | 5,713 | 16,488 | 4,447 | 8,809 | 8,518 | — |
| of which: - Rehabilitation | — | 2,077 | — | 200 | 1,729 | — |
| ~ Procurements, investment | 5,713 | 14,411 | 4,447 | 8,609 | 6,789 | — |
| IN KIND data | | | | | | |
| ~ Number of students, education | 560 | 550 | 547 | 588 | 557 | 557 |
| ~ Number of children in hostel | 198 | 184 | 157 | 165 | 169 | 169 |
| ~ Number of teachers (education) | 64 | 62 | 64 | 63 | 56 | 56 |
| ~ Number of teachers (In hostel) | 10 | 10 | 10 | 8 | 8 | 9 |
| ~ Technical staff | 62 | 57 | 63 | 57 | 55 | 55 |

The economic performance of Zsigmondy Vilmos-Winkler Lajos Technical Secondary School (HUF thousand)

| Name | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|--|---------|---------|---------|---------|---------|---------|
| REVENUES (I-IV.) | 157,811 | 158,637 | 163,342 | 226,225 | 240,908 | 183,408 |
| I. BUDGETARY SUBSIDY | 84,946 | 90,190 | 96,713 | 110,131 | 114,823 | 131,576 |
| ~ From central budget , norm based | 60,535 | 59,426 | 56,697 | 72,657 | 81,319 | 88,422 |
| ~ From local government | 24,411 | 30,764 | 40,016 | 37,474 | 33,504 | 43,154 |
| II. OWN REVENUE | 13,447 | 17,719 | 24,444 | 34,214 | 44,669 | 29,332 |
| ~ Revenue earned with basic operation | 5,014 | 12,257 | 14,512 | 20,441 | 33,056 | 21,898 |
| ~ Leasing of premises | 739 | 717 | 442 | 796 | 1,540 | 400 |
| ~ Other institutional revenues | 7,694 | 4,745 | 9,490 | 12,977 | 10,073 | 7,034 |
| III. FUNDS RECEIVED | 45,664 | 24,262 | 34,040 | 75,500 | 46,162 | 22,500 |
| ~ Fund received for operation | 45,664 | 766 | 150 | 1,712 | 3,960 | — |
| ~ Funds received for accumulation | — | 23,496 | 33,890 | 73,788 | 42,202 | 22,500 |
| IV. RESIDUE MONEY | 13,754 | 26,466 | 8,145 | 6,380 | 35,254 | |
| EXPENDITURES (I-II.) | 130,985 | 150,492 | 251,740 | 190,971 | 200,480 | 183,408 |
| I. OPERATION EXPENDITURES | 111,060 | 124,626 | 145,324 | 147,357 | 173,262 | 164,908 |
| of which: ~ Payroll and relevant taxes | | | | | | |
| II. ACCUMULATON EXPENDTURE | 19,925 | 25,866 | 106,416 | 43,614 | 27,218 | 18,500 |
| of which: ~ Rehabilitation | 2,926 | — | — | 30,482 | 7,912 | — |
| ~ Purchases, investment | 16,999 | 25,866 | 11,728 | 13,132 | 19,306 | 18,500 |
| ~ Securities | — | — | 94,688 | — | — | — |
| OTHER INFORMATION | | | | | | |
| ~ Number of students (on day time courses) | 701 | 680 | 643 | 642 | 665 | 528 |
| ~ Number of children (on correspondence courses) | 339 | 351 | 405 | 417 | 432 | 543 |
| ~ Number of teachers | 72 | 72 | 71 | 65 | 60 | 63 |
| ~ Number of technical staff | 60 | 60 | 59 | 57 | 55 | 50 |

The economic performance of Battyány Lajos Secondary Grammar School and Specialized Secondary School on Health Care (HUF thousand)

| Name | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|--------------------------------------|--------|---------|---------|---------|---------|---------|
| REVENUES (I-IV.) | 87,552 | 102,549 | 113,833 | 137,922 | 169,674 | 148,799 |
| I. BUDGET SUBSIDY | 67,553 | 77,055 | 85,200 | 94,907 | 110,121 | 123,090 |
| ~ Central budget subsidy, norm based | 55,136 | 54,832 | 52,914 | 64,412 | 79,616 | 91,717 |
| ~ Local government subsidy | 12,417 | 22,223 | 32,286 | 30,495 | 30,505 | 31,373 |
| II. OWN REVENUE | 10,621 | 14,145 | 16,155 | 18,131 | 26,237 | 23,709 |
| ~ Revenue linked to basic operation | 3,620 | 5,349 | 5,383 | 6,431 | 7,864 | 9,517 |
| ~ Leasing of premises | 364 | 369 | 534 | 674 | 893 | 615 |
| ~ Other institutional revenue | 6,637 | 8,427 | 8,912 | 10,015 | 15,185 | 12,386 |

| Name | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|--------|--------|---------|---------|---------|---------|
| ~ Utilization of intellectual and material infrastructure | — | — | 1,326 | 1,011 | 2,295 | 1,191 |
| III. FUNDS RECEIVED | 5,029 | 8,876 | 9,879 | 21,972 | 19,361 | 2,000 |
| ~ Financial funds received for operation | 569 | 663 | 1,595 | 901 | 1,313 | 2,000 |
| ~ Financial funds received for accumulation | 4,460 | 8,213 | 8,284 | 21,071 | 18,048 | — |
| IV. RESIDUE MONEY | 4,349 | 2,473 | 2,599 | 2,912 | 13,955 | |
| EXPENDITURES (I-II.) | 85,079 | 99,951 | 110,921 | 123,967 | 149,784 | 148,799 |
| I. OPERATION EXPENDITURES | 80,922 | 94,393 | 106,467 | 113,737 | 139,381 | 148,799 |
| of which - payroll and relevant taxes | | | | | | |
| II. ACCUMULATION EXPENDITURES | 4,157 | 5,558 | 4,454 | 10,230 | 10,403 | — |
| of which: ~ Rehabilitation | 845 | — | 50 | 517 | 779 | — |
| ~ Procurement, investment | 3,312 | 5,558 | 4,404 | 9,713 | 9,624 | — |
| OTHER INFORMATION | | | | | | |
| ~ Number of students | 942 | 926 | 899 | 934 | 961 | 963 |
| ~ Number of teachers | 73 | 73 | 74 | 69 | 73 | 75 |
| ~ Technical staff | 44 | 44 | 45 | 43 | 44 | 45 |

The economic performance of Dr. Mező Ferenc Secondary Grammar School and Specialized Secondary School on Economics (HUF thousand)

| Name | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|--------|---------|---------|---------|---------|---------|
| REVENUES (I-IV.) | 90,539 | 104,927 | 114,528 | 129,550 | 159,638 | 148,838 |
| I. BUDGET SUBSIDY | 67,212 | 74,081 | 84,620 | 93,347 | 108,705 | 127,100 |
| ~ Central budget subsidy, based on norm | 57,786 | 57,387 | 54,716 | 70,988 | 85,147 | 96,872 |
| ~ Local government subsidy | 9,426 | 16,694 | 29,904 | 22,359 | 23,558 | 30,228 |
| II. OWN REVENUE | 15,062 | 18,642 | 18,244 | 18,624 | 21,007 | 19,738 |
| ~ Revenue linked to basic activity | 4,690 | 5,938 | 5,854 | 4,367 | 4,809 | 5,865 |
| ~ Leasing premises | — | 4,984 | 4,920 | 5,241 | 4,752 | 2,498 |
| ~ Other institutional revenue | 6,080 | 7,720 | 7,470 | 9,016 | 11,446 | 11,375 |
| ~ Service | 4,292 | — | — | — | — | — |
| III. GRANTS RECEIVED | 5,326 | 7,430 | 8,833 | 15,821 | 18,326 | 2,000 |
| ~ Grants received for operation | 5,326 | 7,430 | 8,833 | 11,687 | 13,276 | 2,000 |
| ~ Grants received for accumulation | — | — | — | 4,134 | 5,050 | — |
| IV. RESIDUE MONEY | 2,939 | 4,774 | 2,831 | 1,758 | 11,600 | |
| EXPENDITURES (I-III.) | 86,263 | 102,096 | 112,770 | 117,950 | 151,965 | 148,838 |
| I. OPERATION EXPENDITURE | 81,922 | 97,346 | 108,193 | 112,905 | 139,544 | 148,838 |
| of which: ~ Staff costs plus relevant taxes | | | | | | |
| II. ACCUMULATION EXPENDITURE | 4,045 | 4,252 | 4,577 | 5,045 | 12,421 | — |
| of which: ~ Rehabilitation | — | — | 1,938 | 1,633 | 3,825 | — |

| Name | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| ~ Procurement, investment | 4,045 | 4,252 | 2,639 | 3,412 | 8,596 | — |
| III. SETTLEMENT BETWEEN BASIC AND BUSINESS OPERATIONS | 296 | 498 | — | — | — | — |
| OTHER INFORMATION | | | | | | |
| ~ Number of students | 856 | 846 | 837 | 812 | 969 | 949 |
| ~ Number of teaching staff | 63 | 61 | 62 | 62 | 60 | 61 |
| ~ Technical staff | 49 | 51 | 49 | 51 | 51 | 47 |

Economic performance of Széchenyi István Vocational Training Schools for Industry and Specialized Secondary School (HUF thousand)

| Name | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|-------------|-------------|-------------|-------------|-------------|
| REVENUES (I-IV.) | 135,243 | 116,342 | 129,363 | 133,486 | 137,452 | 133,227 |
| I. BUDGET SUBSIDIES | 120,777 | 102,652 | 115,729 | 116,889 | 118,054 | 127,727 |
| ~ from the central budget, based on norm | 75,858 | 74,304 | 69,264 | 74,513 | 77,802 | 78,009 |
| ~ local government subsidy | 44,919 | 28,348 | 46,465 | 42,376 | 40,252 | 49,718 |
| II. OWN REVENUE | 6,944 | 6,787 | 6,622 | 6,782 | 7,437 | 4,500 |
| ~ Revenue linked to basic operation | 783 | 1,019 | 708 | 1,325 | — | 2,500 |
| ~ Leasing of premises | 67 | 147 | 318 | 166 | 40 | 50 |
| ~ Other institutional revenue | 5,351 | 4,111 | 3,392 | 3,462 | 4,087 | 1,950 |
| ~ The value of goods and stocks produced while performing basic operation | 743 | 1,510 | 2,204 | 1,829 | 3,310 | — |
| III. FINANCIAL GRANTS RECEIVED | 7,490 | 6,903 | 7,012 | 9,815 | 11,961 | 1,000 |
| ~ Grants received for basic operation | 538 | 138 | 3,974 | 207 | — | 1,000 |
| ~ Grants received for accumulation | 6,952 | 6,765 | 3,038 | 9,608 | 11,961 | — |
| IV. RESIDUE MONEY | We have no information on this item, so the revenue is not actual performance datum | | | | | |
| EXPENDITURES (I-II.) | 134,698 | 117,500 | 125,819 | 129,535 | 139,662 | 133,227 |
| I. OPERATION EXPENDITURES KIADÁS | 118,192 | 111,870 | 123,113 | 118,553 | 132,500 | 133,227 |
| of which : ~ Staff costs and relevant taxes | | | | | | |
| II. ACCUMULATION EXPENDITURE | 16,506 | 5,630 | 2,706 | 10,982 | 7,162 | — |
| of which: ~ Rehabilitation | 9,214 | 143 | 464 | 4,380 | — | — |
| ~ Investment | 7,292 | 5,487 | 2,242 | 6,602 | 7,162 | — |
| OTHER INFORMATION | We have no information on these indicators | | | | | |

Economic performance of Thúry György Specialized Secondary and Vocational Training School for Trade and Catering (HUF thousand)

| Item | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|--|--------|--------|--------|--------|---------|--------|
| REVENUES (I-IV.) | 66,103 | 65,814 | 82,324 | 96,027 | 114,622 | 99,750 |
| I. BUDGET SUBSIDY | 41,045 | 51,146 | 58,318 | 62,142 | 69,672 | 84,437 |
| ~ From the central budget | 41,193 | 43,468 | 43,630 | 51,601 | 61,791 | 64,591 |
| ~ Local government subsidy | -148 | 7,678 | 14,688 | 10,541 | 7,881 | 19,846 |
| II. OWN REVENUE | 5,103 | 5,488 | 9,223 | 13,754 | 19,420 | 13,313 |
| ~ Revenue linked to basic operation | 2,083 | 2,913 | 5,039 | 8,321 | 14,377 | 10,213 |
| ~ Lease of premises | 211 | 328 | 296 | 1,503 | 1,167 | 740 |
| ~ Other institutional revenue | 2,809 | 2,247 | 3,888 | 3,930 | 3,876 | 2,360 |
| III. GRANTS RECEIVED | 12,274 | 7,930 | 6,700 | 11,035 | 15,898 | 2,000 |
| ~ Grants received for operation | 3,444 | 494 | 6,700 | 274 | 535 | 2,000 |
| ~ Grants received for accumulation | 8,830 | 7,436 | — | 10,761 | 15,363 | — |
| IV. RESIDUE MONEY | 7,681 | 1,250 | 8,083 | 9,096 | 9,632 | |
| EXPENDITURES (I-II.) | 64,971 | 57,731 | 73,229 | 85,778 | 104,217 | 99,750 |
| I. OPERATION EXPENDITURE | 59,123 | 53,623 | 70,762 | 75,592 | 98,515 | 99,750 |
| of which: ~ staff costs and relevant taxes | | | | | | |
| II. ACCUMULATION EXPENDITURE | 5,848 | 4,108 | 2,467 | 10,186 | 5,702 | — |
| of which: ~ Rehabilitation | — | — | — | — | — | — |
| ~ Procurement, investment | 5,848 | 4,108 | 2,467 | 10,186 | 5,702 | — |
| OTHER INFORMATION | | | | | | |
| ~ Number of students | 660 | 688 | 696 | 735 | 799 | 799 |
| ~ Number of teachers | 41 | 42 | 45 | 45 | 46 | 47 |
| ~ Technical staff | 25 | 25 | 25 | 24 | 24 | 24 |

APPENDIX 3

We now present the calculation of the prime cost of catering service for the year 1998.
(on the basis of actual data for 1997, as charged to guests)

Formula: total cost - raw material consumption = overhead

Overhead x 100

Overhead ratio in percent = raw material consumption:

| | |
|---------------------------|----------------|
| total expenditure: | HUF 27,531,000 |
| raw material consumption: | HUF 11,472,000 |
| (a+b) overhead : | HUF 16,059,000 |

d. (c x100/b) overhead ratio: 140 percent

On the above basis the fees to be paid by guest consumers = current norm + 140 percent overhead + 12 percent VAT:

| | | | | |
|-----------------|-----|-------|------|-----------|
| For breakfast | 55 | + 77 | + 16 | = HUF 148 |
| For lunch | 92 | + 129 | + 27 | = HUF 248 |
| For supper | 81 | + 113 | + 23 | = HUF 217 |
| For three meals | 228 | + 319 | + 66 | = HUF 613 |

The sale of student hostel capacity

For the sale of free student hostel capacity the Dr. Mező Ferenc Gimnázium és Szakközépiskola (Secondary Grammar School and Specialized Secondary School) prepared regulations on the calculation of prime costs, and those regulations are suited to establish the fee to be charged for the service.

Prime cost calculation: the year 1998

| | |
|--|---------|
| a. laundry of one set of bed linen (approx. 3kg x HUF 65) | HUF 195 |
| b. remuneration of staff | HUF 180 |
| c. tax on staff cost | HUF 70 |
| d. heating, electricity and water consumption + 12 percent VAT | HUF 112 |
| e. depreciation (max. 45 percent of a+ + d) | HUF 243 |

Total: HUF 800 /head /night

Let us detail the calculation of the value of d.:

| | | |
|-----------|---|-----------------------------------|
| Heating: | HUF 2,377,143 gas consumption / 11,238 m heated | = HUF 212/m/year |
| | HUF 212/m/190days x 32 m (air volume of one room) | = HUF 36/day |
| Lighting: | 4,018 m / 12 m (one room) / electric energy consumption = HUF | = HUF 13,2 |
| | 815 151 HUF 815,151 / 4018 m / 190 days x 12 m | |
| Water: | HUF1,077,266 /190 days / 137students in hostel | = HUF 41 / head /day |
| Total: | 36+13+41+12 percent VAT | = HUF 112 energy cost/head /night |

The HUF 800 / head /night fee seems to be the average for places of accommodation of this type in the town. There are only minor variations in this respect.

The data of the Cserhát Specialized Secondary School provide information on the volume of revenue which can be realized

| Years | Guest nights | Unit price | Revenue (HUF thousand) |
|-----------|--------------|------------|------------------------|
| 1993 | 1,784 | 300 | 535 |
| 1994 | 1,415 | 300 or 350 | 460 |
| 1995 | 2,224 | 400 or 500 | 1,000 |
| 1996 | 1,520 | 500 or 560 | 806 |
| 1997 | 4,758 | 560 or 600 | 2,760 |
| 1998 plan | 6,500 | 600 or 800 | 4,550 |

3. The fees charged for the lease of halls

Even in the absence of contracts the institutions plan to earn revenue by leasing of halls so as to meet the revenue requirements specified by the local government. They use the experiences of earlier years for this purpose.

It is a general practice of several institutions to conclude lease contracts with partners with whom the school has some kind of link, for instance sponsor programs of the institution (lease of Battyány gymnasium).

The fees vary from one type of the hall to another, as costs vary and the wear and tear of tangible assets also differ.

It can be stated in general that 25 percent of the sum received covers energy costs, 20 percent cleaning, 20 percent the purchase of assets and the rest is spent on labor, VAT and other operation costs.

The lease of halls is always contract based. The variety can be seen in appendices 1, 2, 3, and 4.

There are however institutions (e.g., Zsigmondy) where the specific contracts are based on "Regulations on the lease of premises" issued by the director of the institution:

The regulations on the rental fee to be charged by the Zsigmondy - Winkler Technical Secondary School: the year 1997.

Only the director, deputy director and the economic manager have the right to lease the premises.

If the given hall is leased in its basic function the fees are:

| | |
|------------------------|----------------|
| Class room | HUF 500 /hour |
| Lecture room | HUF 1,000/hour |
| Workshop training room | HUF 1,200/hour |
| Gymnasium | HUF 2,500/hour |

For long term and regular lease a maximum discount of 20 percent can be given, with the approval of the economic manager.

3. In the case of special requirements a special lease fee can be agreed on, but such a fee cannot be less than the sum specified in section 2.

4. Fees for training courses

There is such a wide range of training courses available that it is difficult to use the same formula for calculation. The structure of the fee varies from one type to another, sometimes this, at other times the other cost component dominates. However, the key items per student can be determined:

- The hourly fee to be paid to the lecturer
- The fee to be paid to the course manager
- Taxes on fees
- Administration costs
- Travel cost and other cost refund
- Energy requirement of technical tools
- Material- and energy consumption of the instruction
- Examination costs

The management of arrears:

In the case of the lease of premises, as specified in the contract.

In the case of training courses the course generally does not start until all the fees are paid. For training courses of longer duration payment discipline is improved when payment can be made on installment.

For catering fees payment arrears do occur when the social conditions of the children deteriorate Unfortunately no solution has as yet been found to the problem until the social department pays the welfare subsidy; the schools used to advance the fee.

APPENDIX 4
Types of Service Provision

| Service | Service Providing Organization | Ownership relations |
|---|---------------------------------------|---|
| Road maintenance Cemetery maintenance Car park management | VIA Kanizsa Kft. | 100 percent municipally owned |
| Garbage removal | Saubermacher-Ryno Kft. | No local government participation |
| House of Culture | HSMK | Local government institution |
| Landfill | Nagykanizsa-Saubermacher-Ryno | 49 percent local government participation |
| Care for the homeless | Red Cross | No local government participation |
| Water and sewage | Dél-Zalai Water and Sewage company | Partly owned by the local government |
| Swimming pool | Uszoda Kft. | 100 percent owned by the local government |
| Public cleaning | Several smaller | No local government |
| Park maintenance | Enterprises | Participation |
| Property management | IKI | Local government institution |

APPENDIX 5

Economic performance of Hevesi Sándor Cultural Center (HUF thousand)

| Name | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|--------|--------|--------|--------|--------|--------|
| REVENUES (I-IV.) | 36,710 | 44,386 | 55,142 | 59,588 | 63,923 | 46,606 |
| I. BUDGET SUBSIDY | 23,653 | 28,249 | 37,881 | 36,679 | 36,132 | 27,916 |
| ~ Central budget subsidy, based on norms | — | — | — | — | — | — |
| ~ Local government subsidy | 23,653 | 28,249 | 37,881 | 36,679 | 36,132 | 27,916 |
| II. OWN REVENUE | 12,050 | 14,780 | 15,518 | 19,946 | 25,268 | 17,890 |
| ~ Revenue linked to basic activities (fee collected from the sale of tickets) | 6,665 | 6,762 | 7,650 | 10,348 | 12,303 | 8,860 |
| ~ Lease of premises | 4,149 | 4,962 | 5,257 | 6,083 | 7,908 | 6,200 |
| ~ Other institutional revenue | 1,236 | 3,056 | 2,611 | 3,515 | 5,057 | 2,830 |
| III. GRANTS RECEIVED | 539 | 850 | 1,209 | 2,390 | 1,730 | 800 |
| ~ Grants received for operation | 539 | 850 | 1,209 | 2,390 | 1,730 | 800 |
| IV. RESIDUE MONEY | 468 | 507 | 534 | 573 | 793 | |
| EXPENDITURES (I-III.) | 36,203 | 43,853 | 54,709 | 58,792 | 62,503 | 46,606 |
| I. OPERATION EXPENDITURES | 35,851 | 41,265 | 46,385 | 51,264 | 60,917 | 46,566 |
| ~ Staff costs | 16,158 | 19,533 | 18,458 | 18,004 | 21,361 | 22,001 |
| ~ Taxes/levies on staff cost | 6,142 | 7,425 | 6,976 | 7,775 | 9,458 | 9,930 |
| ~ Overhead | 13,551 | 14,307 | 20,951 | 25,485 | 30,098 | 14,635 |
| II. ACCUMULATION EXPENDITURE | 233 | 2,197 | 8,044 | 7,528 | 1,551 | — |
| ~ Rehabilitation | | 1,465 | 7,010 | 6,402 | 305 | |
| ~ Procurement, investment | 233 | 732 | 1,034 | 1,126 | 1,246 | |
| III. TRANSFERRED FUNDS | 119 | 391 | 280 | — | 35 | 40 |
| ~ For operation | 119 | 391 | 140 | | 35 | 40 |

APPENDIX 6

As the task has been performed in this organizational structure as from the 1st of March 1996, the data on the year 1996 as presented on the following table relate not to the full year.

Revenues and Expenditures from Road Maintenance and Parking Lots (HUF thousand)

| Revenues* | 1996 actual | 1997 actual | 1998 plan |
|--|----------------|----------------|--------------|
| Funds received from the local government | | | |
| ~ for road maintenance | 32,000 | 24,464 | 43,000 |
| Revenue earned from parking lots | 15,687 | 25,617 | 30,740 ** |
| Credit drawn (to install parking meters) | | | 9,048 **** |
| Total | 47,687 | 50,081 | 79,788 |
| Expenditures | | | |
| Road maintenance | 39,000 | 35,716 | 43,000 |
| Maintenance of parking lots | 7,377 | 9,467 | 9,500 |
| Repayment of credit (installation of parking meters) | | | 8,904 |
| Total | 46,377 | 45,183 | 61,404 |
| Balance (I.-II.) | 1,310 | 4,898 | 18,384 *** |

* The data on the table reflect net revenues and expenditures as the costs of central administration and non-refundable VAT payment obligation are not divided among the services.

** On the basis of performance data obtained so far one can already presume that the revenue on parking lots will not reach this figure. (approx. 25,000,000)

*** As the planned fee based revenue of the parking lots is expected no to be reached, this balance cannot act as guideline.

**** The estimated capital expenditure will amount to HUF 30,000,000 for which the company is taking a HUF 20,000,000 loan

**Details of operation expenditures (with VAT included)
(as a result of annual survey and continuous monitoring)
(HUF thousand)**

| Name of task | 1996 actual (March 1-) | | 1997 actual | | 1998 plan | |
|---|------------------------|--------------|--------------|--------------|--------------|--------------|
| | Volume | Value | Volume | Value | Volume | Value |
| New construction (Taken over from the local government) | 980 m | 5769 | | | | |
| Maintenance of road, pavement, bridges (filling up potholes, breaks, repair of the pavement and railing of bridges) | 11000 m2 | 21725 | 6100 m2 | 21000 | 6100 m2 | 27570 |
| Filling up potholes , repair of surface of roads outside the boundaries of the town | 3800 m2 | 3614 | 1200 m2 | 2500 | 980 m2 | 2000 |
| Operation, maintenance, repair of traffic lights on public roads | 12 crossings | 1737 | 12 crossings | 2084 | 12 crossings | 2280 |
| Installation, repair, replacement of traffic boards | 670 units | 4116 | 300 units | 2948 | 300 units | 3700 |
| Work on ditches and roadsides | 2160 m | 2189 | 1800 m | 1500 | 1800 m | 2150 |
| Rehabilitation of traffic signs on pavements | 6000 m2 | 3500 | 6000 m2 | 3880 | 6000 m2 | 4450 |
| Moving road shoulders (areas not treated as parks) | 2400 m | 350 | 3500 m | 711 | 3500 m | 850 |
| Total | | 43000 | | 34623 | | 43000 |

APPENDIX 7

Fee calculation

In the summer of 1996, an engineering office in Gyôr developed the parking management concept for downtown Nagykanizsa after a series of detailed surveys on locations, reconciliation exercises and analyses.

The result of the analysis of the situation was that there was 30 percent deficit in the capacity of downtown parking facilities, and the average utilization of existing capacities was very high at 86 percent. 45 percent of parking places were occupied by tourists, 26 percent by foreigners, who visited the town to do shopping. The speed of rotation was very low, and average waiting time was long (approximately 55 minutes)

The parking management and parking fees proposed in the study certainly promised faster speed of rotation, the elimination of surplus traffic caused by drivers looking for parking place and as the residents living in the area were promised parking free of charge the inhabitants of the town agreed with the proposal.

On the basis of the recommendations of the study a fee of HUF 80/hour was introduced in zone 1 and a fee of HUF 60/hour in zone 2.

Fee collection techniques

1996: In the 6 parking lots 13 parking guards—working on the schedule of one day of work, one day free—collected the parking fee on the lots 10 hours a day. The ordinance issued by the local government permitted the purchase of monthly tickets for companies operating in the downtown area.

1997: In the 14 parking lots 25 parking guards - working on the schedule of one day work, one day free- collected the parking fee on the lots 10 hours a day.

The residents were given detailed information on the extension of the parking lots where fees are charged and on the discounts available.

1998: The earlier system which operated with tickets is being replaced by a machine based system. Credit was drawn for the purchase of machines and parking fee was increased. Since the date machines were installed the fee has increased to HUF 100/hour and HUF 80 /hour, and from the 1st of January the fee charged will be HUF 120 and HUF 80, respectively and the 18 parking guards will be discharged.

The fast return on investment is a question.

The management of arrears

In 1996, May was the first full month of operation. The former operator has left behind a significant stratum of non-payers, who nevertheless had regularly used the parking lots.

The first measures proved to be efficient. Non-payers - who purchased no ticket nor had monthly ticket- had notices left on their cars, informing them about payment possibilities and sanctions.

As a consequence the use of paying parking places increased from the former 35-40 percent to 60-65 percent. Since June sanctioning procedures were launched against non-payers but the major part of 200 drivers found legal ways to get around the rule and escaped payment. So the Ltd. did not place any more claims.

The problem with car owners who refused to pay was solved by fencing the parking lots. Railing elements, flower containers and benches were placed around the parking lots with single route of access left open to be able to control payment. In 1997. Only those drivers were sanctioned who regularly refused to pay as proven by the records.

The sanction elements generally included wheel clamps for the removal of which HUF 4,000 is charged, and a surcharge of HUF 1,200.

In 1998, with the installation of parking machines fee collection became more efficient. Regular non-payers continued to be warned and fined with the application of wheel clamps.

The fee structure

It was the study of the situation, the measurements and cost-benefit analysis performed by the Gyôr engineering office (referred to above) which have led to the introduction of the parking fees of HUF 60/hour in the smaller and HUF 80/hour in the larger zone, making the system self-financing; the fund transferred by the local government also helps to cover the cost of road maintenance.

The HUF 30 million project (the installation of parking machines) demanded the increase of parking fee in 1998. from the date the machines started operating and then again from the 1st of January 1998. The zone based fees calculated are needed for the company to repay the investment credit in the total sum of HUF 20 million.

APPENDIX 8

After consultations with the firm engaged in garbage collection the company is permitted to publish only the following tariff related information

Method of setting tariffs and fee structure:

a) *For retail clients who have their own container* In Nagykanizsa the local government sets the solid garbage collection - a public service- fee to be paid by the households.

On the 1st of January 1997 they introduced a volume based tariff system for garbage removal. The fee to be paid for the mandatory service of solid household garbage collection is composed of a *basic fee* and a fee proportionate to the *volume of the collecting container* used for the residue garbage and to the *frequency of garbage removal*. For hygienic reasons the frequency of removal cannot be less than once a week.

The local ordinance of the Assembly of Nagykanizsa, a Town with the county rights provides for waste management and it passed a separate decree on the fee to be paid. (see the garbage removal fee to be paid by users in 1998 and the size of the basic fee) The service company collects the fees on invoices.

Under titles listed in the decrees quoted above the households can apply to the Mayor's Office for special payment holidays and benefits.

The fee to be paid for the mandatory public service is composed of a basic fee, a fee proportionate to the volume of the garbage can and the frequency of garbage removal. The calculation is made the following way:

ANNUAL FEE (HUF) (Ft)= annual basic fee +(the number of occasions when the garbage is collected per year x emptying frequency).

The removal of the garbage container twice weekly: HUF 260/ piece / month
once a week: HUF155 / piece /month

According to current regulations 25 percent VAT is levied on the lease fee and 12 percent on the removal of the container.

c) For public clients which have their own containers

It is established in the form of an *agreement* based on the garbage removal fees declared by Saubermacher-Ryno Kft. at the beginning of every year. In this case the fee includes the frequency of garbage removal as requested by client and transport to the depot.

d) For public clients leasing containers from Hulladékgyűjtő Kft.-

The fee is set as specified in section c) but a *monthly container leasing fee* is added , which again is declared at the beginning of the year, and the leasing fee is identical to the fee set for retail clients for the same types of containers.

e) Fee for garbage removal from neighboring settlements.

The service fee is set *annually* and *per household* on the basis of *commission contract* concluded between the company and the local government of the given settlement. The fee refers to the collection of garbage from the number of households and with the frequency required by client, the transport of the garbage to the place of deposit, the lease fee of containers (in case they are leased) and possible supplementary services (e.g., the collection of Christmas trees placed next to the garbage can, removal of hazardous waste, clearing out junk, etc.)

The fee is paid monthly or quarterly, on the basis of invoice, through transfer.

Client and contractor agree that if the distance to the depot or the system of the depot's operation change, legislation changes, or the authorities issue some regulation in relation to the frequency of garbage removal- for environmental reasons- causing significant cost increase, the volume of the fee will change on joint consent, to fit changed conditions.

The fees set by Saubermacher-Ryno Kft. and those established by the local government are fixed once a year, at the beginning of the year.

Fee collection techniques

The company employs three collection methods for collecting the invoiced fees:

Payment in cash to the collector of the fee

-Transfer

-Through cheque

In the case of *household clients*, payment to the collector of fee is most frequent, then comes transfer, and the use of cheques is very rare. In the case of *public clients* the proportion of transfer and of cheque are of practically identical frequency and payment to the fee collector is very rare, but from 1999 they plan to employ that latter method instead of using cheques.

Management of arrears

In every case (except for debts with value of less than HUF 100) the firm attaches to the forthcoming invoice a payment reminder on the unpaid invoices.

In the case that a *retail client*—who leases the container from the company—*has an accumulated debt of over HUF 50,000*, the firm regards the issue as the termination of the contract by client and the client is sent a notice to return the container. The notice includes a grace period of *two weeks* or *one month* (depending on the size of debt) and the can is collected only if no payment is made even after the receipt of the notice.

Public clients are subject to the above procedure if they are in payment arrears of half a year.

APPENDIX 9

SOURCES

Medium-term Economic and Social Program of Nagykanizsa, a Town with County Rights
Nagykanizsa, 1997

Report on the 1997 Budget management by the Local Government of Nagykanizsa, a Town
with County Rights.
Nagykanizsa, 1998/12/20

Directive of the General Assembly of Nagykanizsa, a Town with County Rights No.3./1998.
(II.17.) on the 1998 budget
Nagykanizsa, 1998

BAUCONSULT Engineers' Office: Car Park management Concept of Nagykanizsa Town
Center
Győr 1996

Directive of the General Assembly of Nagykanizsa, a Town with County Rights No.31./1996.
(XI.5.) Organizational and Operational Procedures
Nagykanizsa, 1996

Co-operation and Assignment Agreement related to Waste Collection in Nagykanizsa
Nagykanizsa, 1993

Co-operation and Assignment Agreement related to Waste Collection in Nagykanizsa
Nagykanizsa, 1998

Foundation Memorandum and the Employment Contract of the Manager of VIA Kanizsa Kft.
Nagykanizsa, 1996

Cooperation agreement related to the operation of the road network and public cemeteries
in Nagykanizsa town
Nagykanizsa, 1998-12-20

Business Plan for 1997 of VIA Kanizsa Kft.
Nagykanizsa, 1997

Status Review of the Road Network of Nagykanizsa, a Town with County Rights,
Nagykanizsa, 1997

Ferenc Papp: Attracted by the Town

Nagykanizsa, 1997

Secondary Education Concept of Nagykanizsa, a Town with County Rights
Nagykanizsa, 1997

Operation and Development Plan of the Public Education Institution Network in Nagykanizsa,
a Town with County Rights (1997-2003)
Nagykanizsa, 1997

The case study was prepared with the assistance of discussions with the following persons:

Istvánné Antal: Red Cross

Miklós Beznicza: Finance Section, Mayor's Office

Sándor Dénes: Culture Section, Mayor's Office

József Ferenc: Managing Director, RYNO Kft.

András Gáspár: Managing Director, VIA Kanizsa Kft.

Gertrúd Gátszegi: Education Section, Mayor's Office

Béla Imre: Technical Section, Mayor's Office

József Karmazin: Senior Architect, Mayor's Office

Márta Nemesvári: Social Section, Mayor's Office

Ferenc Papp: Director, HSMK

Mária Szányi: Culture Section, Mayor's Office

Lászlóné Simonka: Social Section, Mayor's Office

István Tüttö: Mayor